

THE BUDGET POLICIES, PROCESS AND FINANCIAL STRUCTURE

The City of Savannah's Council-Manager form of government was adopted in 1954. Under this organizational plan, the legislative responsibility for municipal government is entrusted in a city council. The Savannah City Council consists of the Mayor and eight Aldermen. Administrative or executive authority is vested in the City Manager. City Council levies taxes, enacts ordinances, and adopts the annual budget, as well as performs many other legislative functions. The City Manager is appointed by the Mayor and Aldermen to manage the government through the development, implementation and execution of programs and policies established by the Council. In addition to advising the Council on policy and legislative matters, the City Manager recommends the annual budget and work programs.

BUDGET PROCESS

The annual budget is a fiscal plan which presents the programs and services to be provided to the community and describes the resources needed to perform these activities. Key policies which guide this process are described in the following section.

Budget Preparation

The City of Savannah's fiscal year begins January 1st and ends December 31st. The major steps in the budget preparation process are:

1. The Research & Budget Department prepares the *Financial Trend Indicators Report* which identifies positive and negative financial trends impacting the City. A *Five Year Financial Plan* is also prepared. These reports are presented to the Council, then used as the financial framework for the budget preparation.
2. A *Five Year Capital Plan* is prepared and presented to Council. The first year of the plan is incorporated into the *Service Program and Budget*.
3. The Research & Budget Department, with directions and guidelines from the City Manager develops base budget expenditure levels for

departments and city-wide revenue projections for the upcoming fiscal year. Departments prepare data on performance measures and service levels for inclusion in the budget document. Additionally, departments submit service change requests to enhance a current activity, establish an activity and/or obtain equipment associated with an activity. These detailed requests are reviewed and changes made to present a balanced budget to the City Manager.

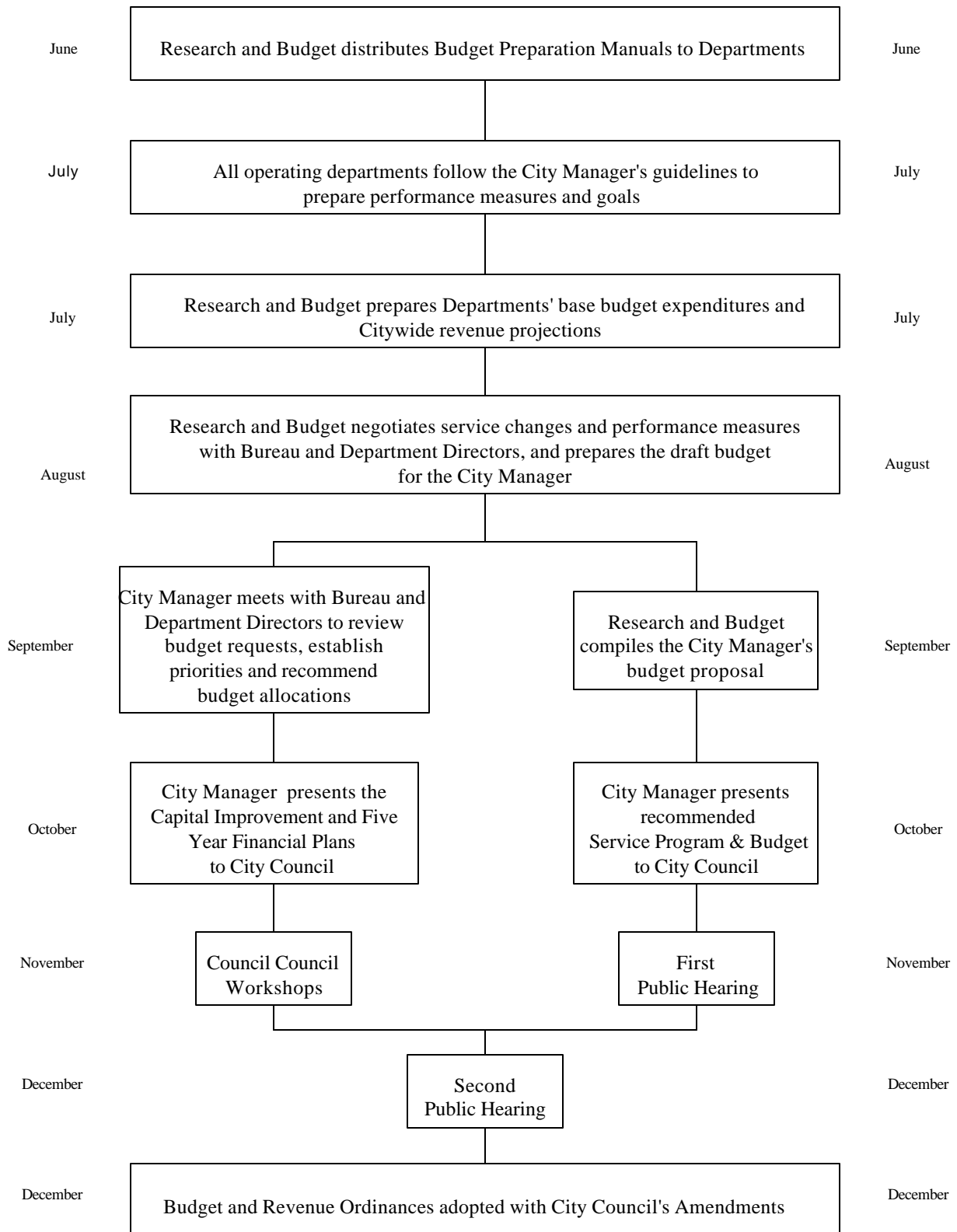
4. The City Manager meets with each of the eight bureau directors to review proposed performance data and expenditures for the upcoming year and makes any necessary changes. The changes are then used to prepare the City Manager's budget recommendations to Council.
5. The Council conducts a series of workshops and public hearings before making changes to the City Manager's budget recommendations. After careful and thorough consideration, the Mayor and Aldermen will then adopt *The Service Program and Budget* by December 31st.

Budget Execution

On January 1st of each year, the adopted budget is implemented. Concurrently, an analysis of the previous year's actual expenditures will begin. During this analysis, problem areas are identified and reconciled. Problem areas that have an impact on the current year are closely monitored. Moreover throughout the year, expenditures, revenues and performance data are monitored in order to ensure the successful implementation of the City's service plan and more fully prepare for the next year.

Budget Amendment

As conditions change or circumstances are altered, the budget process allows for amendments. Because the *Budget* is an ordinance adopted by the Mayor and Aldermen, the amendment process is similar to that used to amend other ordinances. A majority positive vote by Council at two meetings is required.

BUDGET PREPARATION SCHEDULE

BUDGETARY POLICIES

The overall goal of the City's financial plan is to establish and maintain effective management of the City's financial resources. The following section outlines the policies used to guide the preparation and management of the City's annual budget. This section contains a summary of policies pertaining to the operating budget, capital expenditures, revenue, financial accounting, cash management/investment, and debt.

Operating Budget Policies

Preparation of the City's operating budget is guided by the following policies:

- All funds are required to balance. As such, total anticipated revenues must equal the sum of budgeted expenditures for each fund. Revenues are derived from four sources: current revenue charges; increases in existing revenue charges; new revenue sources; and unallocated reserves carried forward from prior years.
- All requests for allocations are considered only in conjunction with measurable performance criteria. Expenditures are approved or rejected on the basis of planned levels of performance. Therefore, it is necessary for each activity within a fund to prepare a performance plan consisting of workload measures, efficiency measures and effectiveness measures.
- Expenditure budgets for enterprise operations (i.e., Water, Sewer, I&D, Sanitation, Parking Services, Civic Center, and Golf Course) must be funded either exclusively or primarily by user fee revenues. Self-sufficiency remains a long range objective for these funds.
- Allocations from the General Fund are based on a long-range financial plan which includes an unallocated fund reserve. For 1999, the unallocated fund reserve totaled approximately \$11 million. This reserve protects the City against catastrophic revenue losses and major emergency expenditures as well as contributes to the City's favorable bond rating.
- Ongoing expenses are never funded by a non-recurring or one-time revenue source. Future and current funding sources are identified for all new programs, services and expansions.

Capital Expenditure Policies

Preparation of the City's capital budget is guided by the following policies:

- A five-year program for infrastructure capital improvements is updated annually. The plan identifies anticipated funding sources.
- Capital projects financed through the issuance of bonds will be financed for a period not to exceed the useful "life" of the project.
- The City will coordinate the development of the capital budget with the development of the operating budget. Future operating costs associated with new capital projects will be forecast and included in operating budget forecasts.
- The City will preserve its assets at a level adequate to protect the capital investment and minimize future maintenance and replacement costs.
- The City will establish an appropriate distribution of bonded debt and cash financing in the funding of capital projects.

Revenue Policies

The City's revenue programs are administered by the Treasury Department according to principles which balance the City's need for revenue with the community's ability to provide the necessary financial resources. The revenue policies which have guided the City are outlined below:

- The City will maintain a broad revenue base; that is, diversified revenue sources will be established and maintained in order to distribute the revenue responsibility equitably and protect the City from short-term fluctuations in any one revenue source.
- In order to fulfill funding needs without

excessive dependence on property taxes, the City will attempt to enlarge the revenue base by seeking new revenue sources. Efforts will be made to work individually as well as with state-wide groups to encourage the State of Georgia to adopt legislation which will enhance local government revenues.

- The City will implement user fees in all areas where feasible and productive as well as set fees at levels related to the costs of providing the services. Moreover, user fees will be reviewed annually as part of the budget process and will, accordingly, be adjusted to maintain or move incrementally closer to full coverage.
- As deemed appropriate, the City will establish self-supporting enterprise funds where the relationship between operating costs and revenues will be clearly identified.
- The City will limit the designation of General Fund revenues for specified purposes in order to maximize flexibility in budgeting and utilize revenues more efficiently.
- The City will maintain effective collection systems and implement aggressive enforcement strategies in order to maximize revenues from available sources.
- Revenues will be projected conservatively in order that actual revenues at the fund level will consistently equal or exceed budgeted revenues.

Financial Accounting Policies

In developing and evaluating the City's accounting system, consideration is given to the effective implementation of financial accounting policies and, specifically, to the adequacy of internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: the safeguarding of assets against loss from unauthorized use or disposition, the reliability of financial records for preparing financial statements, and maintaining accountability for assets.

The internal audit function is the responsibility of the

Auditing Department which is organized separately from, and operates independently of, the Finance Department. The Auditing Director is accountable to the Assistant City Manager of Management and Financial Services and to the City Manager. The department operates a full program of routine and special internal audits.

Single Audit: As a recipient of federal and state assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to secure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by the internal audit staff as well as by management.

Budgeting Controls: The City also maintains budgetary controls to ensure compliance with legal provisions. Balanced annual budgets are adopted for the General Fund, the Internal Services Fund, the Special Revenue Funds, and the Enterprise Funds. The Research & Budget Department monitors expenses and revenues, adjusts line item budgets as needed, and prepares reports for the City Manager.

Cash Management/Investment Policies

Scope of Policy: The City's cash management/investment policy includes all City funds except pension funds which are guided by a separate policy adopted by the Pension Board. Investment of funds is the responsibility of the Finance Department.

Policy Objectives: The primary policy objective is safety of principal. Secondary objectives include adequate liquidity to provide cash as needed, and rate of return on investments.

Allowable Investments: It is the policy of the City of Savannah to limit investments to:

- United States Treasury Bills, Notes, and Bonds
- Certificates of Deposit
- State of Georgia Investment Pool
- City of Savannah Special Assessment Bonds
- Repurchase Agreements.

Risk Controls: To insure liquidity and reduce market risks, investments have maturity dates at or prior to the time cash is projected to be required to meet

disbursement needs.

Collateralization: Collateralization is used to:

- Secure Certificates of Deposit
- Secure Repurchase Agreements
- Secure Demand Deposits.

Investment Fund: The Investment Fund is an agency fund which is the owning fund for all City investments except the Pension Fund and Special Assessment Bonds. Accrued interest is distributed to funds participating in the Investment Fund Pool based on their average daily balance of equity in the pool for that month.

The fund also accounts for a concentrated cash account from which all disbursements are made and all receipts are deposited.

Debt Policies

The City of Savannah is authorized to issue general obligations bonds equivalent to 10% of assessed taxable values within the City. Bonded indebtedness is well within this limit. To maintain this favorable position and the current AA bond rating, the following debt policies are in place:

- C Total long-term debt and major contractual obligations shall not exceed 8% of assessed valuation.
- C Long-term borrowing will be restricted to capital improvements too costly to be financed from current revenues.
 - Proceeds from long term debt will not be used for current, ongoing operations.
 - Bonds will be retired within a period not to exceed the expected useful “life” of the capital project.
- C Additional major obligations should only be undertaken with a new dedicated stream of revenues to support them.
 - Where feasible, special assessment, revenue, or other self-supporting bonds will be used instead of general obligation bonds.
- C The use of any revenue anticipation borrowing will

be avoided. If such borrowing becomes necessary, the debt will be retired in full within the same fiscal year as it is incurred.

- C Good communication with bond rating agencies will be maintained and full disclosure on every financial report as well as bond official statements will continue.

FINANCIAL STRUCTURE

Financial transactions of the City are budgeted and recorded in separate funds. A fund is an independent financial and accounting entity; it is a set of interrelated accounts used to record revenues and expenditures associated with a specific purpose. A fund has a balancing set of accounts and records, cash and other financial resources in conjunction with all related liabilities and residual equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations or restrictions. Although funds are independent entities within the financial records of a government, there is no requirement to physically segregate the assets. Funds are classified into three basic types: governmental funds; proprietary funds; and fiduciary funds.

Governmental Funds

These funds are used to finance the majority of governmental functions. Specifically, the acquisition, use and balances of the City's expendable financial resources as well as the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position rather than upon net income determination.

The following types of governmental funds are utilized by the City:

General Fund: The General Fund provides for general purpose governmental services such as Police, Fire and Streets Maintenance. The revenues and activities that are not required by law or administrative decision must be accounted for in a special fund. However, the General Fund has a great number of revenue sources and, as such, is used to finance many more activities than any other fund.

Special Revenue Funds: Special Revenue Funds account for the proceeds of specific revenue sources, with the exception of special assessments, expendable trusts or major capital projects. These funds are legally restricted to expenditures for specified purposes. The Grant Fund, Community Development Fund, Hazardous Materials Fund, Emergency Communications Fund, and Confiscated Assets Fund are considered special revenue funds.

Capital Improvement Projects Fund: The Capital Improvement Projects Fund accounts for financial resources which are utilized for the acquisition, renovation or construction of major capital facilities and infrastructure. These projects may include the maintenance or renovation of an existing structure as well.

Debt Service Fund: The Debt Service Fund accounts for the accumulation of resources for and the payment of general long-term liability principal, interest and related costs.

Proprietary Funds

These funds are used to account for the ongoing activities of the City which are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses and transfers relating to the City's business and quasi-business activities are accounted for through proprietary funds. As such, the measurement focus is upon determination of net income, financial position and changes in financial position. Two types of proprietary funds utilized by the City are:

Enterprise Funds: Enterprise Funds are used to account for activities that are financed and operated in a manner similar to private business enterprises wherein the expenses (including depreciation) incurred in providing goods or services to the general public on a continuing basis are financed or recovered primarily through user fees. As such, the periodic determination of revenues earned, expenses incurred and/or net income derived from these self-supporting funds is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The following Enterprise Funds are maintained by the City:

1. Water Fund and Sewer Fund
2. Industrial & Domestic Water Supply Fund
3. Golf Course Fund
4. Civic Center Fund
5. Parking Services Fund
6. Sanitation Fund

Internal Services Fund: Frequently referred to as the Revolving Fund or the Working Capital Fund, this fund is used to account for the financing of goods and services provided by one department or agency of a government to other departments or agencies on a cost-reimbursement basis. Departments within the City's Internal Services Fund include Information Services, Engineering and Vehicle Maintenance. These departments, in addition, can supply services to outside agencies for a fee.

Accounting Basis

The Governmental Funds are accounted for using the current financial resources measurement focus incorporated in the Modified Accrual Basis of Accounting. Under this basis, revenues are recognized when they are susceptible to accrual or, in other words, when they become measurable and available. Likewise, expenditures are recorded as the liabilities are incurred, if measurable except for principal and interest on general long-term liabilities which are recognized when due. Revenues which are susceptible to accrual include grants from other governments and interest on investments. Revenue from property taxes is susceptible to accrual but is not accrued because funds are not collected in an appropriate period of time after the year's end to pay liabilities of the current period. Revenues generated from sales taxes, fines, forfeitures and penalties, alcohol taxes as well as franchise fees are not susceptible to accrual as they are neither measurable nor available prior to receipt.

The Proprietary Funds, including the Enterprise Funds and the Internal Services Fund, are accounted for on the Accrual Basis of Accounting on a flow of economic resources basis. Revenues are recognized when they are earned and become measurable. Expenses are recognized when incurred, if measurable. Unbilled receivables at the year's end for Water and Sewer and Sanitation are not accrued since they are not significant to current operations.

The City also reports various Fiduciary Funds which

do not adopt budgets. These funds are accounted for on an accounting basis consistent with the fund's measurement focus. The Cemetery Perpetuity Fund, the Pension Trust Fund, and the Old Pension Trust Fund are accounted for on the accrual basis. The Recorder's Court Fund and the Flexible Benefits Plan Fund are reported on the Modified Accrual Basis of Accounting.

Budgetary Basis

Annual budgets are adopted for the General Fund, Special Revenue Funds, the Internal Services Fund, and Enterprise Funds. All budgets are adopted on a basis consistent with Generally Accepted Accounting

Principles (GAAP).

The level of control or level at which expenditures may not legally exceed the budget is the Fund. Any change in the appropriation level of the Fund must be approved by the City Council while any changes within the Fund which do not require an alteration of the appropriation level may be approved by the City Manager or the Research and Budget Director. With the exception of appropriations for the Capital Improvement Projects Fund, appropriations lapse at the year's end. Appropriations for the Capital Fund are carried forward until such time as the project is completed.